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SUBJ: PRESIDENTIAL VISIT BACKGROUND PAPER XIX: JAPAN'S ECONOMIC ASSISTANCE PROGRAMS

1. JAPAN'S TOTAL FLOWS OF FINANCIAL RESOURCES TO LDC'S -- I.E. GRANTS, CONCESSIONAL LOANS, EXPORT CREDITS, COMMERCIAL LOANS AND PRIVATE INVESTMENT -- HAVE GROWN TO THE POINT THAT JAPAN IS NOW SECOND ONLY TO U.S. AMONG NON-COMMUNIST COUNTRIES AS SOURCE OF SUCH FLOWS. AS RESULT OF THIS GROWTH JAPAN HAS ACHIEVED UNCTAD TARGET FOR TOTAL FLOWS OF ONE PERCENT OF GNP: IN 1973 JAPAN'S TOTAL FLOWS AMOUNTED TO \$5.8 BILLION OR 1.42 PERCENT OF GNP. THIS COMPARED TO U.S.'S TOTAL OF \$7.5 BILLION OR 0.58 PERCENT OF GNP IN 1973.

2. HOWEVER, JAPAN'S PROGRESS ON OFFICIAL DEVELOPMENT ASSISTANCE (ODA) -- GOVERNMENTAL GRANTS AND CONCESSIONAL LOANS -- HAS BEEN MORE MODEST IN TERMS OF ACHIEVING UNCTAD TARGET OF 0.7 PERCENT OF GNP, EVEN THOUGH ODA VOLUME IN DOLLARS HAS INCREASED DRAMATICALLY. IN 1973, JAPAN'S ODA AMOUNTED TO \$1.01 BILLION OR 0.25 PERCENT OF GNP. THIS COMPARED TO U.S. ODA IN 1973 OF \$2.97 BILLION OR 0.23 PERCENT OF GNP AND AVERAGE ODA/GNP FIGURE FOR ALL DEVELOPMENT ASSISTANCE COMMITTEE COUNTRIES OF 0.36 PERCENT.

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3. ALTHOUGH BULK OF JAPAN'S ODA HAS BEEN DISBURSED TO ASIAN COUNTRIES, JAPAN HAS IN RECENT YEARS BROADENED GEOGRAPHIC SCOPE OF HER AID ACTIVITIES TO OTHER AREAS. IN PART, JAPAN HAS DIVERSIFIED HER AID ACTIVITIES IN RESPONSE TO URGINGS

OF OTHER AID DONORS THAT SHE ASSUME GLOBAL ROLE IN KEEPING WITH HER ECONOMIC POWER. HOWEVER, ANOTHER REASON FOR DIVERSIFICATION IS SO-CALLED "RESOURCES DIPLOMACY": JAPAN REALIZES THAT IT IS HEAVILY DEPENDENT ON DEVELOPING COUNTRY SUPPLIERS FOR MANY OF ITS VITAL RAW MATERIALS IMPORTS. IN ORDER TO INCREASE ASSURANCE OF SUPPLIES, JAPAN IS ATTEMPTING TO IMPROVE ITS RELATIONS WITH RESOURCE-RICH COUNTRIES. A MAJOR WAY IT SEEKS TO DO THIS IS BY EXTENDING DEVELOPMENT ASSISTANCE. THIS TREND WAS DRAMATICALLY ILLUSTRATED IN LATE 1973 AND EARLY 1974, FOLLOWING THE OCTOBER WAR AND THE OIL CRISIS, WHEN SUCCESSIVE JAPANESE EMISSARIES PROMISED LARGE AMOUNTS OF GOVERNMENT AND PRIVATE FINANCIAL AID TO NUMEROUS MIDDLE EAST COUNTRIES.

4. JAPAN HAS BEEN CRITICIZED BECAUSE ITS ODA HAS SEEMED PRIMARILY RELATED TO JAPAN'S OWN COMMERCIAL OBJECTIVES RATHER THAN DEVELOPMENT NEEDS OF RECIPIENT COUNTRIES. ADDITIONALLY, IT HAS BEEN CRITICIZED FOR SMALL PROPORTION OF ODA TO ITS TOTAL FLOWS; FOR RELATIVELY HARD TERMS OF ITS LOAN ODA; AND FOR ITS PRACTICE OF TYING BOTH GRANTS AND LOANS TO PROCUREMENT IN JAPAN. AS RESULT OF SUCH CRITICISM, JAPAN OVER PAST FEW YEARS HAS MADE GRADUAL PROGRESS IN IMPROVING ITS AID PROGRAM IN ALL OF THESE AREAS. JAPAN'S ADVERSE BALANCE OF PAYMENTS POSITION, HOWEVER, MAY MAKE ADDITIONAL PROGRESS MORE DIFFICULT.

5. JAPAN HAS PROVIDED MODEST BUT GROWING AMOUNT OF AID TO SOUGH VIETNAM, LAOS AND CAMBODIA, AS WELL AS SMALL AMOUNTS (ABOUT \$1 MILLION) OF HUMANITARIAN ASSISTANCE TO NORTH VIETNAM THROUGH THE RED CROSS. ACTUAL DISBURSEMENTS (AS OPPOSED TO COMMITMENTS) OF ODA IN 1973 AMOUNTED TO \$17.9 MILLION TO SOUTH VIETNAM, \$5.4 MILLION TO LAOS AND \$10.8 MILLION TO CAMBODIA. FORM OF AID AS SOLLOWS:

(A) SOUTH VIETNAM - LOAN AND GRANT AID FOR COMMODITIES, TECHNICAL ASSISTANCE AND PROJECTS; (B) LAOS - GRANT AID (NO LOANS) FOR LIMITED OFFICIAL USE
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FOOD, COMMODITIES AND PROJECTS. MAJOR PORTION OF AID CHanneled THROUGH FEOF; AND (C) CAMBODIA - LOAN AND GRANT AID FOR FOOD AND COMMODITIES. MAJOR PORTION OF AID CHanneled THROUGH ESF.

6. ALTHOUGH GOJ INDICATED WILLINGNESS TO PLAY SUBSTANTIAL ROLE IN INDOCHINA RECONSTRUCTION AND DEVELOPMENT AFTER THE SIGNING OF PARIS AGREEMENT IN JANUARY 1973 AND DID IN FACT COMMIT SUBSTANTIAL AID TO SOUTH VIETNAM IN JFY 1973-74, LEVEL AND TYPE OF AID IN FUTURE WILL DEPEND ON SEVERAL FACTORS: (A) EXTENT TO WHICH SUFFICIENT INTERNAL STABILITY ACHIEVED TO ALLOW RECONSTRUCTION AND

DEVELOPMENT TO PROCEED SMOOTHLY. THOUGH SECURITY SITUATION IN SOUTH VIETNAM HAS DISCOURAGED JAPANESE FROM PROVIDING AID FOR LONG-TERM DEVELOPMENT PROJECTS; A MODEST OVERALL INCREASE IN AID LEVELS IS PROBABLE; AID TO LAOS WAS DELAYED PENDING FORMATION OF COALITION GOVERNMENT; FIGHTING IN CAMBODIA (AS WELL AS UN CREDENTIALS CHALLENGE) HAS SERVED TO LIMIT JAPANESE AID EFFORTS THERE; (B) EXTENT TO WHICH APPROPRIATE MULTILATERAL AID FORA ARE DEVELOPED TO COORDINATE AID EFFORTS IN INDOCHINA. GOJ FEELS IT EASIER TO DEFEND ITS AID POLITICS VIS-A-VIS INDOCHINA -- IN PARTICULAR AID TO SOUTH VIETNAM AND CAMBODIA -- IN DIET AND WITH GENERAL PUBLIC IF ITS AID CAN BE GIVEN UNDER INTERNATIONAL UMBRELLA, PREFERABLY AS PART OF COORDINATED EFFORT; AND (C) EXTENT TO WHICH OTHER DONORS, AND ESPECIALLY US, CONTRIBUTE TO INDOCHINA RECONSTRUCTION AND DEVELOPMENT.

7. ALTHOUGH JAPAN WILL PROBABLY PROVIDE SIGNIFICANT BILATERAL GRANT AID TO NORTH VIETNAM IN NEAR FUTURE IN CONNECTION WITH RECENT ESTABLISHMENT OF DIPLOMATIC RELATIONS, GOJ IS CLEARLY ANXIOUS TO PARTICIPATE ACTIVELY IN AID TO INDOCHINA COUNTRIES WHERE USG INTERESTS ARE PARAMOUNT. IT WILL MAKE BEST EFFORTS TO DO SO DESPITE DOMESTIC POLITICAL OPPOSITION.

8. MEETING OF INDOCHINA AID DONOR COUNTRIES UNDER IBRD/ADB AUSPICES
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NOW SCHEDULED FOR MID-OCTOBER IN PARIS. GOJ HOPES MEETING WILL RESULT IN FORMATION OF OVERALL INDOCHINA CONSULTATIVE GROUP AS WELL AS SUB-GROUPS FOR LAOS AND SOUTH VIETNAM AND, ALTHOUGH GOJ WILL NOT TAKE INITIATIVE IN FORMING THESE SUB-GROUPS, IT WILL SUPPORT THEIR FORMATION AT DONORS MEETING. IN CASE OF SOUTH VIETNAM SUB-GROUP, GOJ FEELS PRESENCE OF SOME EUROPEAN DONOR COUNTRIES IN ADDITION TO U.S. AND JAPAN NECESSARY. WITH RESPECT TO NORTH VIETNAM, GOJ HAS INDICATED IT WOULD PARTICIPATE IN A SUB-GROUP FOR THAT COUNTRY IF FORMATION OF A SUB-GROUP IS PROPOSED AND IF NORTH VIETNAM ACCEPTS THE PROPOSAL.
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